# MART RESOURCES, INC.

## ANNUAL REPORT

1998

# LETTER TO SHAREHOLDERS

On behalf of the Board of Directors of Mart Resources, Inc., it is a pleasure to present to our shareholders the annual report for the fiscal year ended December 31, 1998. This has been a significant year for Mart as the Company turned its attention entirely to high potential international oil and gas exploration and exploitation opportunities. Although a number of these opportunities did not fit the necessary combination of parameters established by the Company, others are presently being evaluated and an exciting venture in west Africa became Mart's first international endeavor.

On January 29, 1998 Mart concluded the acquisition of Collier Ventures Ltd. through the issuance of 3,000,000 common shares at a deemed price of $0.33 1/3 per share. As a result of this purchase, Mart acquired a 100% working interest in a 920,000 acre oil and gas exploration permit (the Rendus Permit) located immediately north and east of the mouth of the Congo river in the Democratic Republic of Congo.

This permit holds excellent potential of yielding large (multi-million barrel) oil fields. It is bordered immediately to the west by producing fields containing 100 million barrels of recoverable oil reserves and on the east within the permit boundaries are found over 500 million barrels of tar sand oil. The giant Molonga oil field with over 750 million barrels of recoverable oil is on trend to the northwest. Previous exploration has identified six exploration leads on the permit with total possible recoverable reserves of 980 million barrels of oil. The highest rated of these leads, the Yema lead with 234 million barrels of possible oil reserves, is just two miles north of the Liawenda oil field, a producing field containing reported recoverable reserves of 54 million barrels of oil.

In early May of 1998 Mart commenced negotiations on a Production Sharing Agreement (PSA) with the responsible Ministries of the Democratic Republic of Congo covering the Rendus Permit. In late July, just as the PSA was about to be finalized, civil unrest in the DRC erupted into a civil war. Normal government business was put on hold and Mart's PSA was tabled. The fighting is a result of complex tribal issues that have become more complicated by the direct involvement of neighbor states. However, regional peace initiatives are being actively pressed and all indications point towards an early end to hostilities. Mart is confident that the PSA will be signed quickly once order is restored. Following ratification of the PSA, Mart intends to invite an industry partner to participate in an aggressive evaluation of the Permit under terms favourable to Mart.

# LETTER TO SHAREHOLDERS, continued

In addition to the Rendus Permit, Mart is presently evaluating other exciting oil and gas business opportunities in the west African coastal region. These include production purchases, permit acquisitions and exploratory drilling ventures.

On behalf of the Board of Directors,

Robert J. Leslie
President and Chief Executive Officer

April 26, 1999

# AUDITORS' REPORT

To the Shareholders of **Mart Resources, Inc.**:

We have audited the consolidated balance sheets of **Mart Resources, Inc.** as at December 31, 1998 and 1997 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An Audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

"signed"

Smith Cageorge Thompson Perry

CHARTERED ACCOUNTANTS

CALGARY, Alberta
April 9, 1999

# CONSOLIDATED BALANCE SHEETS
## as at December 31, 1998 and 1997

| | 1998 | 1997 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT** | | |
| Cash and Term Deposits | $ 19,753 | $ 144,179 |
| Accounts Receivable | 1,166 | 960 |
| Joint Venture Costs Receivable (Note 4) | 125,895 | 124,069 |
| | 146,814 | 269,208 |
| **INVESTMENT IN SEISMIC DATA** (Note 2 (f)) | 310,400 | 310,400 |
| **CAPITAL ASSETS** (Note 5) | 14,520 | 6,969 |
| **PETROLEUM PROPERTY INTERESTS** (Note 6) | 1,516,341 | 340,212 |
| | $ 1,988,075 | $ 926,789 |
| **LIABILITIES** | | |
| **CURRENT** | | |
| Accounts Payable and Accrued Liabilities | $ 96,372 | $ 58,120 |
| Due to Related Parties (Note 9 (b)) | 82,982 | 13,187 |
| Site Restoration costs | 55,000 | 55,000 |
| | 234,354 | 126,307 |
| **DUE TO RELATED PARTIES** (Note 9 (b)) | 57,000 | - |
| **DUE TO SHAREHOLDERS** (Note 9 (a)) | 50,395 | - |
| | 341,749 | 126,307 |
| **SHAREHOLDERS EQUITY** | | |
| **CAPITAL STOCK** (Note 7) | 6,468,343 | 5,383,906 |
| **DEFICIT** | (4,822,017) | (4,583,424) |
| | 1,646,326 | 800,482 |
| | $ 1,988,075 | $ 926,789 |

See accompanying notes to consolidated financial statements

APPROVED ON BEHALF OF THE BOARD

Robert J. Leslie
President and Chief Executive Officer

# CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT for the years ended December 31, 1998 and 1997

| | 1998 | 1997 |
|---|---|---|
| **REVENUE** | | |
| Sale of Seismic Data | $ - | $ 77,600 |
| Interest | - | 859 |
| | - | 78,459 |
| **EXPENSES** | | |
| General and Administrative | **77,081** | 51,288 |
| Consulting | **69,247** | 90,586 |
| Professional Fees | **46,788** | 33,899 |
| Wages and Benefits | **24,526** | 23,184 |
| Stock Exchange and Transfer Agent Fees | **12,806** | 13,613 |
| Clean-up Costs | **4,247** | - |
| Depreciation | **3,898** | 2,125 |
| | **238,593** | 214,695 |
| LOSS BEFORE ABANDONMENTS AND SITE RESTORATION | **238,593** | 136,236 |
| Abandonments (Note 6) | - | 4,305,724 |
| Site Restoration | - | 55,000 |
| | - | 4,360,724 |
| **NET LOSS** | **238,593** | 4,496,960 |
| Deficit, Beginning of Year | **4,583,424** | 86,464 |
| **DEFICIT, END OF YEAR** | $ 4,822,017 | $ 4,583,424 |
| **LOSS PER SHARE** | $ **0.01** | $ 0.31 |
| **Weighted Average Number of Shares Outstanding** | **18,864,691** | 14,349,157 |

See accompanying notes to consolidated financial statements

# CONSOLIDATED STATEMENTS OF CASH FLOWS
## for the years ended December 31, 1998 and 1997

| | 1998 | 1997 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Oil and Gas Sales and Joint Venture Billings | $ - | $ 163,516 |
| Proceeds on Sale of Seismic Data | - | 77,600 |
| Interest Received | - | 859 |
| Cash Paid to Employees | (24,526) | (23,184) |
| Cash Paid to Suppliers | (57,416) | (582,019) |
| Cash Used in Operating Activities | (81,942) | (363,228) |
| **FINANCING ACTIVITIES** | | |
| Share Capital Issued for Cash | 94,700 | 1,485,500 |
| Advance by a Former Officer | - | 13,187 |
| Advances by Shareholders | 50,395 | - |
| Cash Provided by Financing Activities | 145,095 | 1,498,687 |
| **INVESTING ACTIVITIES** | | |
| Expenditures on Oil and Gas Properties | (176,129) | (1,834,041) |
| Proceeds on Disposal of Capital Assets | 2,350 | - |
| Purchase of Capital Assets | (13,800) | - |
| Cash used in Investing Activities | (187,579) | (1,834,041) |
| **INCREASE (DECREASE) IN CASH** | (124,426) | (698,582) |
| Cash, Beginning of Year | 144,179 | 842,761 |
| **CASH, END OF YEAR** | $ 19,753 | $ 144,179 |

See accompanying notes to consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GOING CONCERN

Mart Resources, Inc. ("the Company"), is engaged in the business of international petroleum exploration and development in the Democratic Republic of Congo, Africa.

The Company is in the process of exploring its oil and gas interests. The ultimate recoverability of the Company's investment in its oil and gas interests is dependent upon the existence and discovery of economically recoverable oil and gas reserves, confirmation of the Company's interest in the oil and gas interests, the ability of the Company to obtain necessary financing to complete development of the interests, and upon the ability to attain future profitable production.

The Company has acquired a 100% working interest (subject to government royalties and taxes) in a hydrocarbons prospecting and mining concession block ("the Rendus Concession") in the Democratic Republic of Congo. The interest in the Rendus Concession has been acquired pursuant to a Protocol of Agreement ("the Rendus Protocol"), which has been subsequently confirmed by the present government of the Democratic Republic of Congo. Notwithstanding this agreement, government consent must be issued in order to conduct development and production activities within the country. At this time, over a year after signing the Rendus Protocol, the Company is still awaiting government consent.

In order to meet long-term obligations under the Rendus Protocol, the Company will require additional funding. The recoverability of the investments in the Company's oil and gas interest and the ability to perform under the Rendus Protocol is dependant upon the Company's ability to conclude a successful financial arrangement.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a company with continuing operations. Should the Company not be able to meet the objectives described above and have continued operations, certain assets and liability accounts would require adjustment and reclassification.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) <u>Principles of Consolidation</u>

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, 704922 Alberta Ltd. and Collier Ventures Limited, a company incorporated in the Isle of Man.

Acquisitions of interests in subsidiary companies are accounted for by the purchase method. The excess or deficiency of consideration paid for shares of the subsidiary companies over the book value of their assets, at the date of acquisition, is allocated to petroleum and natural gas properties and is subject to the accounting policy stated in Note 2 (d).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting policies requires management to make estimates that affect the reported amounts of assets, such as petroleum and natural gas concessions (Note 1), and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c) Cash

Cash includes bank deposits and term deposits with maturities equal to or less than ninety days.

d) Petroleum Property Interests

The Company follows the full cost method of accounting for petroleum operations whereby all costs of exploring for and developing petroleum reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, production equipment and related overhead costs, with respect to unproved properties and major development projects. Such costs, net of proceeds from minor disposals of property are accumulated and will be depleted on a country-by-country basis using the unit-of-production method based upon estimated proved net reserves.

Gains or losses are recognized upon the sale or disposition of development properties when proved reserves of those properties are significant in relation to the Company's total reserves.

Costs accumulated in each cost centre are limited to the future net revenue from estimated production of proved reserves plus the value of unproved properties and major development projects. Costs accumulated in all cost centres are further limited, under the enterprise ceiling test, to the aggregate future net revenues from estimated production of proved reserves plus the aggregate value of unproved properties and major development projects, less the aggregate estimated future general and administrative costs, site restoration costs, financing costs and income taxes for all cost centres.

e) Interest in Joint Ventures

Some of the Company's oil and gas exploration, development and production activities are conducted jointly with others, and accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

f) Investment in Seismic Data

The investment in 3D seismic data is valued at the lower of cost and net realizable value.

g) Capital Assets

Capital assets are depreciated at the following rates:

| | |
|---|---|
| Furniture and fixtures | - 20% declining balance |
| Computer equipment | - 30% declining balance |
| Leasehold improvements | - 20% straight line |

h) Flow Through Shares

The Company has financed certain of its exploration and development activities through the issue of flow through shares. Under the terms of the flow through share issue, the tax attributes of the related expenditures are renounced to subscribers. Proceeds from common shares issued pursuant to flow through financings, including any premiums paid for tax deductions transferred, are credited to capital stock.

i) Loss Per Share

Loss per share is calculated based on the weighted average number of shares outstanding during the year. The exercise of stock options and warrants is anti-dilutive.

j) Site Restoration Costs

Estimated costs of restoring the petroleum properties are accrued and charged to earnings when a decision is made to abandon the properties or on the unit-of-production method when a property commences production.

## 3. BUSINESS COMBINATION

During the year, the Company acquired all of the issued and outstanding shares of Collier Ventures Limited ("Collier"), an Isle of Man Corporation for total consideration of $ 1,000,000, which consisted of 3,000,000 common shares of the Company at a deemed price of $ 0.3334 per common share. Collier holds a 100% working interest in a hydrocarbon prospecting and mining concession block ("the Rendus Concession"), located in the Democratic Republic of Congo.

The acquisition was accounted for using the purchase method with results of operations being included in the financial statements from the date of acquisition.

| | |
|---|---|
| Petroleum and natural gas concessions, at net book value | $ 1,043,952 |
| Adjustment to fair market value | (43,952) |
| Total consideration | $ 1,000,000 |

## 4. JOINT VENTURE COSTS RECEIVABLE

Joint venture costs receivable amounting to $ 125,895 are under dispute, however, the Company believes that these amounts will be fully recoverable.

## 5. CAPITAL ASSETS

| | 1998 Cost | 1998 Accumulated Depreciation | 1998 Net Book Value | 1997 Net Book Value |
|---|---|---|---|---|
| Furniture and fixtures | $ 4,349 | $ 2,371 | $ 1,978 | $ 4,824 |
| Computer equipment | 3,604 | 2,102 | 1,502 | 2,145 |
| Leasehold improvements | 13,800 | 2,760 | 11,040 | - |
| | $ 21,753 | $ 7,233 | $ 14,520 | $ 6,969 |

## 6. PETROLEUM PROPERTY INTERESTS

| | 1998 | 1997 |
|---|---|---|
| Petroleum and Natural Gas Concessions | | |
| Balance, beginning of year | $ 340,212 | $ - |
| Costs incurred | 176,129 | 340,212 |
| Acquisition of Collier Ventures Limited | 1,000,000 | - |
| Balance, end of year | 1,516,341 | 340,212 |
| Petroleum and Natural Gas Properties | | |
| Balance, beginning of year | - | 3,232,920 |
| Costs incurred | - | 1,383,204 |
| Abandonments | - | (4,305,724) |
| Estimated net realizable value of seismic data | - | (310,400) |
| Balance, end of year | - | - |
| | $ 1,516,341 | $ 340,212 |

The Company holds a 100% working interest in the Rendus Concession, a hydrocarbons prospecting and mining concession block, pursuant to the Rendus Protocol signed between Collier Ventures Limited ("Collier"), a wholly-owned subsidiary of the Company, and the government of the Democratic Republic of Congo. The Rendus Concession is an onshore block covering an area of approximately 1,450 square miles (928,000 acres), located in the western coastal region of the Democratic Republic of Congo. The interest is subject to 3% overriding royalty payable to the former shareholders of Collier.

The Rendus Protocol provides for a renewable ten year term and imposes a minimum work obligation that consists of drilling one exploration well and evaluating the commerciality of crude oil extraction from tar sands situated in the concession. If the exploration drilling results in a commercial discovery, the Company is required to commence production from the Rendus Concession prior to the expiration of the initial ten year term of the Rendus Protocol. The Company is required to receive the consent of the government of the Democratic Republic of Congo prior to conducting exploration and development activities in the country. Limited activity has occurred on the property since the Company's acquisition of Collier as the first phase of a work program under the Rendus Protocol has not received government consent.

6. **PETROLEUM PROPERTY INTERESTS** (Continued)

At this time, the Rendus Concession is an unproven property, and, accordingly, the Company has not made a provision for depletion nor performed a ceiling test.

During the year ended December 31, 1997, the Company wrote off all costs of its petroleum and natural gas properties that were not related to the Rendus Concession, net of the estimated net realizable value of seismic data. In addition, the Company set up site restoration costs for the properties written off based on the Company's share of actual estimates for site clean up.

7. **CAPITAL STOCK**

a) Authorized

Unlimited number of common voting shares
Unlimited number of preferred shares, issuable in series

b) Issued

| | Number of Shares | | Stated Value |
|---|---|---|---|
| Common shares | | | |
| Balance, December 31, 1996 | 11,906,664 | $ | 4,009,031 |
| Issued for cash | | | |
| Exercise of share purchase warrants | 3,060,000 | | 1,201,500 |
| Exercise of stock options | 100,000 | | 15,000 |
| Reduction of capital stock on renouncement to flow through shareholders | - | | (110,625) |
| Total issued December 31, 1997 | 15,066,664 | | 5,114,906 |
| To be issued | | | |
| For cash, private placement | 760,000 | | 269,000 |
| Balance, December 31, 1997 | 15,826,664 | | 5,383,906 |
| Issued for cash | | | |
| Private placement | 220,000 | | 79,700 |
| Exercise of stock options | 100,000 | | 15,000 |
| Issued for common shares of Collier Ventures Limited (Net of issuance of expense of $ 10,623) | 3,000,000 | | 989,737 |
| Balance, December 31, 1998 | 19,146,664 | $ | 6,468,343 |

As at December 31, 1998, 1,944,445 common shares are held in escrow (1997 - 1,333,334). Of this amount, 444,445 were released subsequent to December 31, 1998.

7. **CAPITAL STOCK** (Continued)

c) Outstanding Options

At December 31, 1998 and 1997, the Company had the following outstanding stock options issued to directors, officers, employees, and other key personnel pursuant to the Company's incentive stock option plan:

| | 1998 | | 1997 | |
|---|---|---|---|---|
| Expiry Date | Number of Shares | Price | Number of Shares | Price |
| November 8, 2001 | - | $ - | 100,000 | $ 0.15 |
| September 16, 2001 | 650,000 | 0.63 | 650,000 | 0.63 |
| August 6, 2002 | 725,000 | 0.39 | 725,000 | 0.39 |
| September 18, 2003 | 150,000 | 0.20 | - | - |
| | 1,525,000 | | 1,475,000 | |

d) Outstanding Warrants

As at December 31, 1998, the Company had 980,000 (1997 - nil) outstanding purchase warrants issued pursuant to a private placement, which may be exercised to purchase 980,000 (1997 - nil) common shares at $ 0.50 per share to January 5, 1999. Subsequent to year end, these warrants expired without being exercised.

8. **FINANCIAL INSTRUMENTS**

The Company's financial instruments are comprised of cash and term deposits, accounts receivable, prepaid expenses and accounts payable. Due to their short-term maturity or capacity of prompt liquidation, the carrying amounts of these financial instruments approximates their fair market value unless disclosed elsewhere in these financial statements. The Company is exposed to financial risk that arises from the credit quality of its joint venture partners. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments unless disclosed elsewhere in these financial statements.

9. **RELATED PARTY TRANSACTIONS**

a) Due to Shareholders

At December 31, 1998, there is $ 50,395 (1997 - $ nil) due to two shareholders with respect to funds advanced to the Company during the year ended December 31, 1998 to cover certain operating costs of the Company. The advances bear interest at 6% per annum and have no fixed terms of repayment.

9. **RELATED PARTY TRANSACTIONS** (Continued)

b) Management Fees and Due to Related Parties

Corporations in which certain of the Company's officers or directors are shareholders have been paid management fees in the amount of $ 157,440 (1997 - $ 15,120). At December 31, 1998, due to related parties included $ 126,795 (1997 - $ nil) with respect to the management fees, and $ 13,187 (1997 - $ 13,187) with respect to amounts advanced by a former director. Subsequent to year end, and subject to regulatory approval, $ 57,000 of the management fees will be settled by the issuance of common shares (Note 13). Hence, $ 57,000 has been included in the financial statements as a long-term liability, and the remaining balance of $ 82,982 is classified as a current liability to reflect the absence of fixed terms of repayment.

10. **INCOME TAXES**

a) The Company and it's Canadian subsidiary have accumulated losses for Canadian income tax purposes of approximately $ 753,122, the related benefits of which have not been recognized in the consolidated financial statements. Unless sufficient taxable income is earned by the Company and its subsidiaries, these losses will begin to expire in 2002.

b) The Company also has available for deduction, at annual rates as provided by the Canadian Income Tax Act in determining taxable income of future years, approximately $ 1,629,804 in oil and gas expenditures.

c) A Company subsidiary, Collier Ventures Limited, has available for foreign tax deductions $ 1,482,320 to December 31, 1998 related to costs incurred on the Rendus Concession in the Democratic Republic of Congo, and will be subject to Democratic Republic of Congo taxation, the form of which is yet to be determined by the Democratic Republic of Congo Government. The Company anticipates the Democratic Republic of Congo taxes to be in the form of a royalty, a profits tax, or some combination of both.

11. **UNCERTAINTY DUE TO THE YEAR 2000 ISSUE**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations.

It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

## 12. COMPARATIVE FIGURES

In the year ended December 31, 1998, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants that pertain to the Statement of Cash Flows. As a result, what were formerly referred to as the "Statement of Changes in Financial Position" were renamed the "Statements of Cash Flows", and were revised to reflect a new format and method of reporting cash flows. Consequently, certain comparative figures for 1997 have been restated to conform to the current year's financial statement presentation.

## 13. SUBSEQUENT EVENT

Subsequent to December 31, 1998, the Company, subject to regulatory authorities approval, has agreed to issue common shares with a value of $ 61,500 in settlement of $ 57,000 due to related parties and $ 4,500 due to other third parties which is included in accounts payable at December 31, 1998.

# CORPORATE INFORMATION

## HEAD OFFICE

1133 Kensington Road N.W.
Calgary, AB T2N 3P4

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e-mail: martresources@home.com

## DIRECTORS

- William Cherwayko (1)(2)
  Calgary, AB
- Leroy Wolbaum (2)(3)
  Nelson, BC
- Ross E. Moulton, P.Geol
  Calgary, AB
- Robert J. Leslie, Ph.D., P.Geol (1)(3)
  Calgary, AB

## OFFICERS

- Robert J. Leslie
  President
  Chief Executive Officer
  Chief Financial Officer

(1) Audit Committee
(2) Governance Committee
(3) Compensation Committee

## AUDITORS

- Smith Cageorge Thompson Perry
  Calgary, AB

## BANKERS

- Royal Bank of Canada
  Calgary, AB

## SOLICITORS

- Armstrong Perkins Hudson
  Calgary, AB

## TRANSFER AGENT

- Montreal Trust
  Calgary, AB

## STOCK EXCHANGE LISTING

- Alberta Stock Exchange
- Trading Symbol “MMT”

## SHARE CAPITAL

- Issued and Outstanding: 21,651,664

**MART RESOURCES, INC.**

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